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December 18, 1970

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CEMENT PRICES IN ONTARIO

Prices and Incomes Commission

John H. Young
Chairman

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FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep export industries under review and when developments in one of these industries impaired the general price restraint program, appropriate solutions would be sought.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

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CEMENT PRICES
ONTARIO

Introduction

In June, 1970, cement producers introduced a price increase of $1.25 per ton or approximately five per cent on the average selling price in the Ontario market. The Prices and Incomes Commission learned of the increase from building contractors and undertook an investigation to determine whether this price increase complied with the agreed price restraint criteria. Four companies are involved: Canada Cement Lafarge Ltd., St. Lawrence Cement Co., Lake Ontario Cement Ltd. and St. Mary's Cement Co. Ltd. Detailed information was obtained on costs, prices and profit performance of the cement-manufacturing operations of each company. The year 1969 was used as the base year for a comparison of changes in costs and revenues.

Companies

Canada Cement Lafarge operates plants at Belleville and Woodstock in Ontario and at Hull, Que. The bulk of the output at Hull is sold in Ontario. According to published information, these three plants have a combined annual capacity of 1,575,000 tons. St. Lawrence Cement operates a plant at Clarkson which has an annual capacity of 1,800,000 tons. St. Mary's Cement has plants at St. Mary's and Bowmanville with a total annual capacity of 875,000 tons. Lake Ontario Cement operates a plant at Picton which has a capacity of 700,000 tons per year.

Through their subsidiaries, cement companies supply various cement and concrete products and are also

engaged in construction activities. The Commission examined only the cement-manufacturing operations of the four companies.

Manufacturing Process

Portland cement is composed chiefly of lime, silica, iron and alumina.

Limestone rock and the other raw materials are crushed, ground and combined in the correct proportions before entering a kiln. In the burning zone of the kiln, the original materials are changed into what is known as clinker. Gypsum is added to the cooled clinker to regulate the time required for cement to set. After grinding, the clinker emerges as a fine, grey powder.

Pricing

Cement is sold on the basis of a delivered price, which is the sum of a base price plus freight from the manufacturing plant or distribution depot. Competition in cement markets may result in partial freight absorption by more distant sources of supply. Special discounts and contract prices also exist, especially for large-volume customers.

The average selling price in early 1970 was approximately $23.70 per ton. The June price increase to Ontario customers therefore, amounts to an increase of approximately five per cent.

From 1965 to June, 1970, the selling price of cement by the four companies in Ontario has increased by approximately 17 per cent.

Costs, Prices, and Revenues

For the four producers average costs per ton in 1970 have risen by $1.15. Labor and fuel costs account for more than half of this increase.

Total labor costs at the mill level are about nine per cent higher per ton of cement produced in 1970 than in 1969. This increase is due to higher wage rates, salaries and benefits. In the case of one firm the cost of maintenance labor has increased appreciably and is included in the nine per cent. Coal prices have advanced by at least 30 per cent during the last year. Electrical power rates have been adjusted upwards by about 13 per cent for some producers in 1970. Furthermore, increases have been experienced in all types of transportation charges.

The price increase implemented in June, 1970, will result in average per-ton revenues increasing by 76 cents in 1970. The Commission proposes to continue its surveillance of the industry in 1971 in order to keep informed of the cost and revenue implications over a longer period.

CONCLUSION

Costs and revenues of each of the four companies were analysed separately and, in all cases, cost increases exceed revenue increases. The companies are therefore within the criteria.

It should also be noted that Canada Cement Lafarge Ltd. increased prices by $1.25 per ton in May, 1970, on sales from its operations in Nova Scotia and New Brunswick. The Commission conducted a price review in that case as well and found a cost situation similar to that in Ontario. Canada Cement Lafarge projects a profit decline in their Maritime operation in the current year. Costs have risen to a greater extent than revenues and the company is therefore within the agreed criteria.

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